

UNDERWOOD COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Underwood Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 election)		
Julie Handbury	President	2007
Neil Darrington	Vice President	2007
Tim Schwery	Board Member	2008
Keith Petersen	Board Member	2009
Greg Konsor	Board Member	2009
Board of Education (After September 2007 election)		
Keith Petersen	President	2009
Neil Darrington	Vice President	2011
Tim Schwery	Board Member	2008
Julie Handbury	Board Member	2011
Greg Konsor	Board Member	2009
School Officials		
Ed Hawks	Superintendent	2008
Shelley Naig	District Secretary and Treasurer	2008
James Hanks	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Underwood Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Underwood Community School District, Underwood, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Underwood Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 2, 2009 on our consideration of Underwood Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Underwood Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

January 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Underwood Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,908,977 in fiscal 2007 to \$6,319,716 in fiscal 2008, while General Fund expenditures increased from \$5,658,420 in fiscal 2007 to \$6,126,570 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$611,978 in fiscal 2007 to \$805,124 in fiscal 2008, a 31.56% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property taxes and state grant revenues in fiscal 2008. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.
- The District received \$532,788 in local option sales and service tax during the year.
- October 2007 Certified Enrollment count resulted in an increase of 45.9 students, representing a 6.4% increase compared to the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Underwood Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Underwood Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Underwood Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Underwood Community School District Annual Financial Report

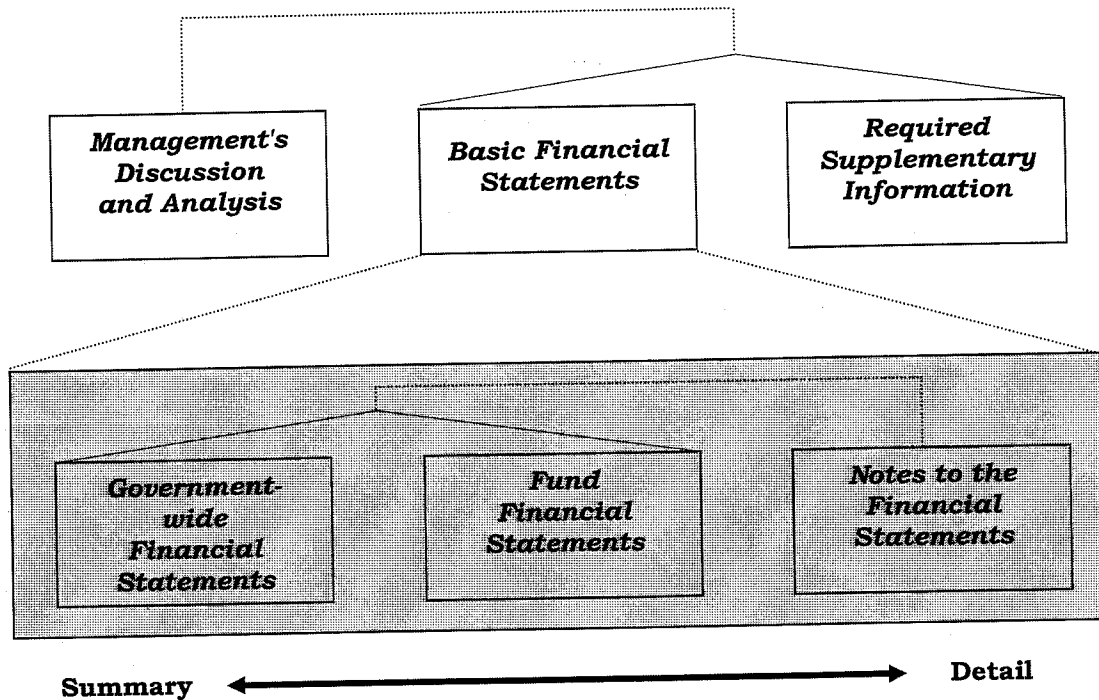


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are

one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition and the Latch Key Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 7,854,695	11,245,964	97,282	54,629	7,951,977	11,300,593	-29.63%
Capital assets	6,765,225	1,902,336	5,682	5,250	6,770,907	1,907,586	254.95%
Total assets	14,619,920	13,148,300	102,964	59,879	14,722,884	13,208,179	11.47%
Long-term liabilities	5,369,658	5,515,180	0	0	5,369,658	5,515,180	-2.64%
Other liabilities	3,976,074	3,600,201	21,697	24,041	3,997,771	3,624,242	10.31%
Total liabilities	9,345,732	9,115,381	21,697	24,041	9,367,429	9,139,422	2.49%
Net assets:							
Invested in capital assets, net of related debt	3,332,013	1,902,336	5,682	5,250	3,337,695	1,907,586	74.97%
Restricted	1,187,145	1,654,158	0	0	1,187,145	1,654,158	-28.23%
Unrestricted	755,030	476,425	75,585	30,588	830,615	507,013	63.83%
Total net assets	\$ 5,274,188	4,032,919	81,267	35,838	5,355,455	4,068,757	31.62%

The District's combined net assets increased by \$1,286,698 or 31.62% over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$1,454,775 or 87.95% over the prior year. The increase was primarily due to the increase in the restricted part of the Capital Projects Fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$323,602 or 63.83%. The increase was primarily due to the increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the years ended June 30, 2008 and June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 869,705	807,243	314,057	266,085	1,183,762	1,073,328	10.29%
Operating grants and contributions and restricted interest	753,308	636,571	98,218	85,100	851,526	721,671	17.99%
Capital grants and contributions and restricted interest	0	14,608	0	0	0	14,608	-100.00%
General revenues:							
Property tax	2,853,877	2,149,626	0	0	2,853,877	2,149,626	32.76%
Local option sales and service tax	532,788	535,021	0	0	532,788	535,021	0.00%
Unrestricted state grants	2,668,381	2,645,114	0	0	2,668,381	2,645,114	0.88%
Other	358,757	344,077	399	696	359,156	344,773	4.17%
Transfers	0	(17,912)	0	0	0	(17,912)	100.00%
Total revenues	8,036,816	7,114,348	412,674	351,881	8,449,490	7,466,229	13.17%
Program expenses:							
Governmental activities:							
Instructional	3,940,725	3,770,172	0	0	3,940,725	3,770,172	4.52%
Support services	2,325,366	2,248,637	0	0	2,325,366	2,248,637	3.41%
Non-instructional programs	0	0	367,245	339,732	367,245	339,732	8.10%
Other expenses	529,456	398,019	0	0	529,456	398,019	33.02%
Total expenses	6,795,547	6,416,828	367,245	339,732	7,162,792	6,756,560	6.01%
Change in net assets	1,241,269	697,520	45,429	12,149	1,286,698	709,669	81.31%
Net assets beginning of year	4,032,919	3,335,399	35,838	23,689	4,068,757	3,359,088	21.13%
Net assets end of year	\$ 5,274,188	4,032,919	81,267	35,838	5,355,455	4,068,757	31.62%

In fiscal 2008, property tax, local option sales and services tax and unrestricted state grants account for 75.34% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.90% of the revenue from business type activities.

The District's total revenues were approximately \$8.45 million of which \$8.04 million was for governmental activities and \$.41 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 13.17% in revenues, and a 6.01% increase in expenses. The increase in expenses was related to the increase in negotiated salaries and benefits.

Governmental Activities

Revenues, net transfers for governmental activities were \$8,036,816 and expenses were \$6,795,547.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 3,940,725	3,770,172	4.52%	2,583,515	2,557,339	1.02%
Support services	2,325,366	2,248,637	3.41%	2,291,627	2,225,319	2.98%
Other expenses	529,456	398,019	33.02%	297,392	175,748	69.22%
Totals	<u>\$ 6,795,547</u>	<u>6,416,828</u>	<u>5.90%</u>	<u>5,172,534</u>	<u>4,958,406</u>	<u>4.32%</u>

For the year ended June 30, 2008:

- The cost financed by users of the District's programs was \$869,705.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$753,308.
- The net cost of governmental activities was financed with \$2,853,877 in property tax, \$532,788 in local option sales and service tax, \$2,668,381 in unrestricted state grants, \$295,102 in interest income and \$63,655 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$412,674 and expenses were \$367,245. The District's business-type activities include the School Nutrition and Latch Key Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Underwood Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,914,870, below last year's ending fund balances of \$7,773,268. However, the primary reason for the decrease was the decrease in the fund balance of the Capital Projects due to the construction costs of the Middle School Addition and the High School upgrades.

Governmental Fund Highlights

- The District's General Fund balance increased from \$611,978 on June 30, 2007 to \$805,124 on June 30, 2008. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the local tax and state grant revenue during the year resulted in an increase in total revenues. Revenues exceeded the increase in expenditures caused by increases in negotiated salaries and benefits, utilities

and transportation costs. Overall, the District's General Fund balance increased by \$193,146.

- The Capital Projects fund balance decreased during the current year, from \$6,985,017 to \$2,967,918. The decrease was due to the construction costs for the Middle School Addition and the High School upgrades.

Proprietary Fund Highlights

The Enterprise Funds net assets increased from \$35,838 at June 30, 2007 to \$81,267 at June 30, 2008, representing an increase of 126.76%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$157,202 more than budgeted revenues, a variance of 1.90%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$6,770,907, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 254.95% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$113,862.

The original cost of the District's capital assets was \$10,742,329. Governmental funds account for \$10,707,651 with the remainder of \$34,678 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The construction in progress totaled \$5,514,493 at June 30, 2008, compared to \$774,473 reported at June 30, 2007. This increase resulted from the expenses incurred and paid by the District for the New Middle School/Elementary Expansion and High School Upgrade Project during the year. The balance will be capitalized upon completion.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 97,590	97,590	0	0	97,590	97,590	0.00%
Construction in progress	5,514,493	774,473	0	0	5,514,493	774,473	612.03%
Buildings	832,216	813,319	0	0	832,216	813,319	2.32%
Land improvements	153,775	107,194	0	0	153,775	107,194	43.45%
Machinery and equipment	167,151	109,760	5,682	5,250	172,833	115,010	50.28%
Total	\$ 6,765,225	1,902,336	5,682	5,250	6,770,907	1,907,586	254.95%

Long-Term Debt

At June 30, 2008, the District had \$5,369,658 in general and other long-term debt outstanding. This represents a decrease of 2.64% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$5,355,000 at June 30, 2008.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Levy Fund of \$14,658 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 5,355,000	5,445,000	-1.65%
Early retirement	14,658	70,180	-79.11%
Total	\$ 5,369,658	5,515,180	-2.64%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment fluctuations may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Federal legislation with respect to student achievement in the future years may result in sanctions that could have financial implications for the general fund operating budget. The "No Child Left Behind" act of 2001 applies sanctions to underperforming schools that, if the school remains under-performing (as defined by the act) allows the parents of pupils in the school to move to another school, transferring their funding to the new school. This act applies to individual school facilities and does not necessarily apply to school districts,

however, the revenue impact to a school district could be material if the school district has a school facility that under-performs and starts to lose enrollment.

- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Shelley Naig, District Board Secretary/Treasurer, Underwood Community School District, P.O. Box 130, Underwood, Iowa, 51576.

BASIC FINANCIAL STATEMENTS

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,650,387	92,500	4,742,887
Receivables			
Property tax:			
Delinquent	27,978	0	27,978
Succeeding year	2,932,297	0	2,932,297
Accounts	4,140	0	4,140
Due from other governments	239,893	97	239,990
Inventories	0	4,685	4,685
Capital assets, net of accumulated depreciation (Note 3)	6,765,225	5,682	6,770,907
Total Assets	14,619,920	102,964	14,722,884
Liabilities			
Accounts payable	496,256	0	496,256
Salaries and benefits payable	511,272	18,826	530,098
Accrued interest payable	36,249	0	36,249
Deferred revenue:			
Succeeding year property tax	2,932,297	0	2,932,297
Unearned revenues	0	2,871	2,871
Long-term liabilities (Note 4):			
Portion due within one year:			
General obligation bonds	205,000	0	205,000
Early Retirement	14,658	0	14,658
Portion due after one year:			
General obligation bonds	5,150,000	0	5,150,000
Total Liabilities	9,345,732	21,697	9,367,429
Net Assets			
Invested in capital assets, net of related debt	3,332,013	5,682	3,337,695
Restricted for:			
Debt service	3,443	0	3,443
Salary improvement program	1,562	0	1,562
Additional teacher contract days	2,882	0	2,882
Professional Development	251	0	251
Market factor	4,220	0	4,220
Market Factor Incentives	4,930	0	4,930
Capital projects	1,046,130	0	1,046,130
Management levy	29,840	0	29,840
Physical plant and equipment levy	13,019	0	13,019
Other special revenue purposes	80,868	0	80,868
Unrestricted	755,030	75,585	830,615
Total Net Assets	\$ 5,274,188	81,267	5,355,455

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 2,756,984	486,201	483,149	(1,787,634)	0
Special instruction	491,819	80,844	22,115	(388,860)	0
Other instruction	691,922	284,901	0	(407,021)	0
	<u>3,940,725</u>	<u>851,946</u>	<u>505,264</u>	<u>(2,583,515)</u>	<u>0</u>
Support services:					
Student services	132,163	0	0	(132,163)	0
Instructional staff services	278,716	0	0	(278,716)	0
Administration services	859,355	0	0	(859,355)	0
Operation and maintenance of plant services	660,765	0	0	(660,765)	0
Transportation services	394,367	17,759	15,980	(360,628)	0
	<u>2,325,366</u>	<u>17,759</u>	<u>15,980</u>	<u>(2,291,627)</u>	<u>0</u>
Other expenditures:					
Facilities acquisitions	20,939	0	0	(20,939)	0
Long-term debt interest	221,092	0	0	(221,092)	0
AEA flowthrough	232,064	0	232,064	0	0
Depreciation(unallocated)*	55,361	0	0	(55,361)	0
	<u>529,456</u>	<u>0</u>	<u>232,064</u>	<u>(297,392)</u>	<u>0</u>
Total governmental activities	6,795,547	869,705	753,308	(5,172,534)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	318,921	239,123	98,218	0	18,420
Latch Key	48,324	74,934	0	0	26,610
Total business-type activities	<u>367,245</u>	<u>314,057</u>	<u>98,218</u>	<u>0</u>	<u>45,030</u>
Total	<u>\$ 7,162,792</u>	<u>1,183,762</u>	<u>851,526</u>	<u>(5,172,534)</u>	<u>45,030</u>
General Revenues					
Property tax levied for:					
General purposes				\$ 2,393,479	0
Debt service				404,061	0
Capital outlay				56,337	0
Local option sales and services				532,788	0
Unrestricted state grants				2,668,381	0
Unrestricted investment earnings				295,102	399
Other general revenues				63,655	0
				<u>6,413,803</u>	<u>399</u>
Total general revenues				1,241,269	45,429
Changes in net assets				4,032,919	35,838
Net assets beginning of year				<u>\$ 5,274,188</u>	<u>81,267</u>
Net assets end of year					<u>5,355,455</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 1,159,792	3,354,833	136,218	4,650,843
Receivables:				
Property tax:				
Delinquent	21,912	0	6,066	27,978
Succeeding year	2,297,829	0	634,468	2,932,297
Accounts	4,140	0	0	4,140
Due from other governments	133,453	106,440	0	239,893
Total Assets	\$ 3,617,126	3,461,273	776,752	7,855,151
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	2,901	493,355	0	496,256
Salaries and benefits payable	511,272	0	0	511,272
Excess of warrants issued over bank balance	0	0	456	456
Deferred revenue:				
Succeeding year property tax	2,297,829	0	634,468	2,932,297
Total liabilities	2,812,002	493,355	634,924	3,940,281
Fund balances:				
Reserved for:				
Debt service	0	0	3,443	3,443
Capital facility construction	0	1,921,788	0	1,921,788
Salary improvement program	1,562	0	0	1,562
Additional teacher contract days	2,882	0	0	2,882
Professional Development	251	0	0	251
Market factor	4,220	0	0	4,220
Market factor incentives	4,930	0	0	4,930
Unreserved	791,279	1,046,130	138,385	1,975,794
Total fund balances	805,124	2,967,918	141,828	3,914,870
Total Liabilities and Fund Balances	\$ 3,617,126	3,461,273	776,752	7,855,151

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances of governmental funds (page 16)	\$ 3,914,870
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,765,225
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(36,249)
Long-term liabilities, including bonds payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,369,658)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 5,274,188</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,228,425	532,788	625,452	3,386,665
Tuition	535,398	0	0	535,398
Other	142,063	284,253	274,232	700,548
State sources	3,290,678	0	376	3,291,054
Federal sources	120,635	0	0	120,635
Total revenues	<u>6,317,199</u>	<u>817,041</u>	<u>900,060</u>	<u>8,034,300</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,747,574	0	70,469	2,818,043
Special instruction	491,819	0	0	491,819
Other instruction	426,811	0	263,522	690,333
	<u>3,666,204</u>	<u>0</u>	<u>333,991</u>	<u>4,000,195</u>
Support services:				
Student services	132,163	0	0	132,163
Instructional staff services	278,716	0	0	278,716
Administration services	847,430	3,097	7,472	857,999
Operation and maintenance of plant services	562,235	0	117,217	679,452
Transportation services	407,758	0	21,135	428,893
	<u>2,228,302</u>	<u>3,097</u>	<u>145,824</u>	<u>2,377,223</u>
Other expenditures:				
Facilities acquisitions	0	4,831,043	50,755	4,881,798
Long-term debt:				
Principal	0	0	90,000	90,000
Interest	0	0	313,935	313,935
AEA flowthrough	232,064	0	0	232,064
	<u>232,064</u>	<u>4,831,043</u>	<u>454,690</u>	<u>5,517,797</u>
Total expenditures	<u>6,126,570</u>	<u>4,834,140</u>	<u>934,505</u>	<u>11,895,215</u>
Excess(deficiency) of revenues over(under) expenditures	190,629	(4,017,099)	(34,445)	(3,860,915)
Other financing sources:				
Proceeds from the sale of equipment	2,517	0	0	2,517
Total other financing sources(uses)	<u>2,517</u>	<u>0</u>	<u>0</u>	<u>2,517</u>
Net change in fund balances	193,146	(4,017,099)	(34,445)	(3,858,398)
Fund balance beginning of year	611,978	6,985,017	176,273	7,773,268
Fund balance end of year	<u>\$ 805,124</u>	<u>2,967,918</u>	<u>141,828</u>	<u>3,914,870</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 18) \$ (3,858,398)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 4,976,070	
Depreciation expense	<u>(113,181)</u>	4,862,889

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (1,586)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 90,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 92,842

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement		<u>55,522</u>
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Changes in net assets of governmental activities (page 15) \$ 1,241,269

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	Business-Type Activities Enterprise Funds		
	School Nutrition	Latch Key	Total
Assets			
Cash and pooled investments	\$ 28,265	64,235	92,500
Due from other governments	97	0	97
Inventories	4,685	0	4,685
Capital assets, net of accumulated depreciation (Note 3)	5,682	0	5,682
Total Assets	38,729	64,235	102,964
Liabilities			
Salaries and benefits payable	15,015	3,811	18,826
Unearned revenue	2,871	0	2,871
Total Liabilities	17,886	3,811	21,697
Net Assets			
Invested in capital assets	5,682	0	5,682
Unrestricted	15,161	60,424	75,585
Total Net Assets	\$ 20,843	60,424	81,267

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	Business-Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
Operating revenues:				
Local sources:				
Charges for services	\$ 239,123	74,934	314,057	28,962
Operating expenses:				
Non-instructional programs:				
Salaries	103,416	38,828	142,244	0
Benefits	13,691	4,238	17,929	30,548
Services	5,218	0	5,218	0
Supplies	195,634	5,258	200,892	0
Other	281	0	281	0
Depreciation	681	0	681	0
Total operating expenses	318,921	48,324	367,245	30,548
Operating income(loss)	(79,798)	26,610	(53,188)	(1,586)
Non-operating revenues:				
State sources	4,659	0	4,659	0
Federal sources	93,559	0	93,559	0
Interest income	399	0	399	0
Total non-operating revenues	98,617	0	98,617	0
Change in net assets	18,819	26,610	45,429	(1,586)
Net assets beginning of year	2,024	33,814	35,838	1,586
Net assets end of year	\$ 20,843	60,424	81,267	0

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	Business-Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 236,847	0	236,847	0
Cash received from miscellaneous operating activities	2,223	74,934	77,157	28,962
Cash payments to employees for services	(119,509)	(42,954)	(162,463)	(30,548)
Cash payments to suppliers for goods or services	(182,376)	(5,258)	(187,634)	0
Net cash provided by(used in) operating activities	(62,815)	26,722	(36,093)	(1,586)
Cash flows from non-capital financing activities:				
State grants received	4,659	0	4,659	0
Federal grants received	74,608	0	74,608	0
Net cash provided by non-capital financing activities	79,267	0	79,267	0
Cash flows from capital and related financing activities:				
Purchase of capital assets	(1,113)	0	(1,113)	0
Cash flows from investing activities:				
Interest on investments	399	0	399	0
Net increase(decrease) in cash and cash equivalents	15,738	26,722	42,460	(1,586)
Cash and cash equivalents at beginning of year	12,527	37,513	50,040	1,586
Cash and cash equivalents at end of year	\$ 28,265	64,235	92,500	0
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (79,798)	26,610	(53,188)	(1,586)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	18,854	0	18,854	0
Depreciation	681	0	681	0
Increase in inventories	(96)	0	(96)	0
Increase(Decrease) in salaries and benefits payable	(2,403)	112	(2,291)	0
Decrease in unearned revenue	(53)	0	(53)	0
Net cash provided by(used in) operating activities	\$ (62,815)	26,722	(36,093)	(1,586)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 28,265	64,235	92,500	0

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$18,854.

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
	<u>Fund</u>
ASSETS	
Cash and pooled investments	\$ 17,900
TOTAL ASSETS	<u>17,900</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 17,900</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2008

	Private Purpose Trust Scholarship Fund
Additions:	
Local sources:	
Interest income	\$ 914
Total additions	<u>914</u>
Deductions:	
Instruction:	
Scholarships awarded	<u>543</u>
Total deductions	<u>543</u>
Change in net assets	371
Net assets beginning of year	<u>17,529</u>
Net assets end of year	<u><u>\$ 17,900</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The Underwood Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Underwood, Iowa, and the predominate agricultural territory in Pottawattamie County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Underwood Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Underwood Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pottawattamie County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise Funds, School Nutrition Fund and Latch Key and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Latch Key Fund is used to account for child care services. The Internal Service Fund is used to account for the flex benefits for

employees of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements

issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2008 balances of interfund accounts receivable or payable have been recorded.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the

current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances;

certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 2,445,934</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 97,590	0	0	97,590
Construction in progress	774,473	4,740,020	0	5,514,493
Total capital assets not being depreciated	872,063	4,740,020	0	5,612,083
Capital assets being depreciated:				
Buildings	2,746,792	65,002	0	2,811,794
Land improvements	542,287	55,837	0	598,124
Machinery and equipment	1,608,787	115,211	38,348	1,685,650
Total capital assets being depreciated	4,897,866	236,050	38,348	5,095,568
Less accumulated depreciation for:				
Buildings	1,933,473	46,105	0	1,979,578
Land improvements	435,093	9,256	0	444,349
Machinery and equipment	1,499,027	57,820	38,348	1,518,499
Total accumulated depreciation	3,867,593	113,181	38,348	3,942,426
Total capital assets being depreciated, net	1,030,273	122,869	0	1,153,142
Governmental activities capital assets, net	\$ 1,902,336	4,862,889	0	6,765,225

	Balance Beginning of Year	Increases	Decreases	Balance End Of Year
Business-type activities:				
Machinery and equipment	\$ 33,565	1,113	0	34,678
Less accumulated depreciation	28,315	681	0	28,996
Business-type activities capital assets, net	<u>\$ 5,250</u>	<u>432</u>	<u>0</u>	<u>5,682</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 6,100
Other		5,194
Support services:		
Administration services		1,356
Operation and maintenance of plant services		8,561
Transportation services		36,609
		<u>57,820</u>
Unallocated depreciation		<u>55,361</u>
Total governmental activities depreciation expense		<u>\$ 113,181</u>
Business-type activities:		
Food services		<u>\$ 681</u>

(4) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 5,445,000	0	90,000	5,355,000	205,000
Early retirement	70,180	14,658	70,180	14,658	14,658
Total	<u>\$ 5,515,180</u>	<u>14,658</u>	<u>160,180</u>	<u>5,369,658</u>	<u>219,658</u>

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2003			
		Principal	Interest	Total	
2009	4.25 %	\$ 205,000	217,494	422,494	
2010	4.25	215,000	208,781	423,781	
2011	4.25	220,000	199,644	419,644	
2012	4.25	230,000	190,293	420,293	
2013	4.25	240,000	180,518	420,518	
2014-2018	4.00	1,365,000	746,990	2,111,990	
2019-2023	4.00	1,685,000	449,190	2,134,190	
2024-2026	4.00-4.125	1,195,000	98,554	1,293,554	
Total		<u>\$ 5,355,000</u>	<u>2,291,464</u>	<u>7,646,464</u>	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based on a percentage of the salary and the number of years of service. Early retirement benefits paid during the year ended June 30, 2008, totaled \$70,180. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$213,330, \$198,393 and \$191,489, respectively, equal to the required contributions for each year.

(6) Risk Management

The Underwood Community School District is a member in the Iowa School Employees Benefits Association, fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: life and long-term disability.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2008 were \$11,032.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

Underwood Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$232,064 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Construction Commitment

The District has entered into various contracts totaling \$7,046,964 for the New Middle School/Elementary Expansion Project. As of June 30, 2008, costs of \$5,514,493 had been incurred against the contracts. The balance of \$1,532,471 remaining at June 30, 2008 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 4,622,611	314,456	4,937,067	4,830,880	4,830,880	106,187
State sources	3,291,054	4,659	3,295,713	3,279,392	3,279,392	16,321
Federal sources	120,635	93,559	214,194	179,500	179,500	34,694
Total revenues	8,034,300	412,674	8,446,974	8,289,772	8,289,772	157,202
Expenditures:						
Instruction	4,000,195	0	4,000,195	4,252,536	4,252,536	252,341
Support services	2,377,223	0	2,377,223	2,654,768	2,654,768	277,545
Non-instructional programs	0	367,245	367,245	394,750	394,750	27,505
Other expenditures	5,517,797	0	5,517,797	6,886,202	6,886,202	1,368,405
Total expenditures	11,895,215	367,245	12,262,460	14,188,256	14,188,256	1,925,796
Excess(deficiency) of revenues over(under) expenditures	(3,860,915)	45,429	(3,815,486)	(5,898,484)	(5,898,484)	(2,082,998)
Other financing sources, net	2,517	0	2,517	0	0	(2,517)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(3,858,398)	45,429	(3,812,969)	(5,898,484)	(5,898,484)	(2,085,515)
Balance beginning of year	7,773,268	35,838	7,809,106	6,026,984	6,026,984	1,782,122
Balance end of year	\$ 3,914,870	81,267	3,996,137	128,500	128,500	3,867,637

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 42,875	80,868	12,475	136,218	0	136,218
Receivables:						
Property tax:						
Delinquent	1,623	0	544	2,167	3,899	6,066
Succeeding year	150,000	0	61,574	211,574	422,894	634,468
Total Assets	\$ 194,498	80,868	74,593	349,959	426,793	776,752
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants issued over bank balance	\$ 0	0	0	0	456	456
Deferred revenue:						
Succeeding year property tax	150,000	0	61,574	211,574	422,894	634,468
Total liabilities	150,000	0	61,574	211,574	423,350	634,924
Fund balances:						
Reserved for debt service	0	0	0	0	3,443	3,443
Unreserved	44,498	80,868	13,019	138,385	0	138,385
Total fund balances	44,498	80,868	13,019	138,385	3,443	141,828
Total Liabilities and Fund Balances	\$ 194,498	80,868	74,593	349,959	426,793	776,752

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds				Total
	Manage-	Student	Physical	Total	Other
	ment	Activity	Plant and	Special	Nonmajor
	Levy		Equipment	Revenue	Governmental
			Levy	Funds	Funds
REVENUES:					
Local sources:					
Local tax	\$ 165,054	0	56,337	221,391	404,061
Other	1,275	272,952	4	274,231	1
State sources	100	0	34	134	242
TOTAL REVENUES	166,429	272,952	56,375	495,756	404,304
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	70,469	0	0	70,469	0
Other instruction	0	263,522	0	263,522	0
	70,469	263,522	0	333,991	0
Support services:					
Administration services	7,472	0	0	7,472	0
Operation and maintenance of plant services	115,822	1,395	0	117,217	0
Transportation services	0	0	21,135	21,135	0
	123,294	1,395	21,135	145,824	0
Other expenditures:					
Long-term Debt:					
Principal	0	0	0	0	90,000
Interest	0	0	0	0	313,935
Facilities acquisitions	0	0	50,755	50,755	0
	0	0	50,755	50,755	403,935
TOTAL EXPENDITURES	193,763	264,917	71,890	530,570	403,935
Net change in fund balance	(27,334)	8,035	(15,515)	(34,814)	369
Fund balance beginning of year	71,832	72,833	28,534	173,199	3,074
Fund balance end of year	\$ 44,498	80,868	13,019	138,385	3,443

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues/ Transfers in	Expendi- tures	Balance End of Year
Band Activity	\$ 1,992	48,552	48,677	1,867
Track Activity	(309)	2,253	2,466	(522)
Basketball Activity	598	5,294	4,910	982
Football Activity	2,595	12,524	7,733	7,386
Baseball Activity	(1,258)	3,152	3,083	(1,189)
Wrestling Activity	345	2,561	2,281	625
Volleyball Activity	344	1,971	2,031	284
Softball Activity	230	4,585	4,043	772
Activity Tickets	5,609	7,580	13,345	(156)
Golf Activity	613	4	(31)	648
Elementary Art Club	3,246	5,969	4,897	4,318
Baseball Club	(425)	15,047	13,239	1,383
High School Art Club	414	952	536	830
High School Concessions	(868)	12,401	12,107	(574)
Cross Country Club	(54)	1,675	1,559	62
Boys Basketball Club	1,633	6,739	8,191	181
FFA Account	3,671	0	0	3,671
Interest	373	2,782	3,155	0
Girls Basketball Club	1,412	6,930	3,917	4,425
Library Club	572	0	0	572
Football Club	2,303	4,466	6,477	292
Drill Team	920	6,675	7,345	250
Middle School Pop/Juice	176	6,318	6,246	248
High School Pop/Juice	1,147	9,621	11,375	(607)
Revolving	(109)	957	1,160	(312)
Soda	221	0	0	221
High School Science Club	96	606	490	212
Softball Club	1,772	8,050	9,421	401
Elementary Student Council	1,813	895	567	2,141
Middle School Student Council	89	2,802	2,647	244
High School Student Council	618	763	989	392
FCCLA/FHA Account	126	381	500	7
High Vocal Activity	3,576	2,010	2,224	3,362
High School Volleyball Club	2,234	388	914	1,708
Weightlifting Club	656	647	973	330
Softball Pitching	166	310	310	166
High School Wrestling Club	810	3,083	2,546	1,347
High School Yearbook	(1,259)	3,448	6,149	(3,960)
High School Girls Track Club	688	2,083	1,936	835
Wrestling Camp	14	0	0	14

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues/ Transfers in	Expendi- tures	Balance End of Year
Basketball Cheerleading	2,293	58	535	1,816
Football Cheerleading	1,350	886	920	1,316
Wrestling Cheerleading	384	231	546	69
Elementary Field Trip	70	3,541	3,496	115
Elementary Student Directory	833	214	0	1,047
Middle School Leadership	921	1,389	1,044	1,266
Peers	158	0	0	158
Middle School Quest	2,622	773	509	2,886
SOS Account	532	0	0	532
Sweatshirts	(920)	6,492	8,897	(3,325)
Middle School TAG	17	0	0	17
Alumni	421	0	0	421
Spanish Club	180	0	0	180
JH Volleyball Club	34	973	896	111
Jump Rope for Heart	130	2,890	2,890	130
Elementary Playground Acct	17	0	0	17
Fellowship Athletes	79	0	0	79
Middle School Wrestling Club	0	1,659	1,568	91
Middle School Yearbook	837	0	0	837
Middle School Activity Center	1,767	0	344	1,423
Middle School Vocal Activity	3,583	831	134	4,280
Elementary Music	2,144	998	1,464	1,678
Home/School Partnership	57	0	0	57
Elementary PAC	7,349	38,017	22,499	22,867
JH Girls Track Club	80	0	0	80
Girard Memorial Library Fund	132	1,515	350	1,297
Special Ed Project	139	0	0	139
Wrestling Mat Fund	2,000	0	0	2,000
Band Flag Corp	328	1,018	1,086	260
JH Football Club	0	830	874	(44)
JH Basketball Club	9	0	0	9
JH Boys Track Club	(207)	2,610	1,691	712
Class of 2007	(324)	0	(324)	0
Class of 2008	834	2,009	2,815	28
Class of 2009	1,560	3,439	4,444	555
Class of 2010	0	4,228	2,011	2,217
District 8 Football	905	0	905	0
MS Concessions	1,858	3,877	5,520	215
Adopt Instrument Fund	19	0	0	19
Band/Chicago Trip	16	0	0	16
BB/SB Complex	3,836	0	1,395	2,441
Total	\$ 72,833	272,952	264,917	80,868

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 JUNE 30, 2008

	Capital Project Funds		
	GO Bond Construction	Local Option Sales and Services Tax	Total Capital Projects
ASSETS			
Cash and pooled investments	\$ 2,325,894	1,028,939	3,354,833
Due from other governments	0	106,440	106,440
TOTAL ASSETS	<u>\$ 2,325,894</u>	<u>1,135,379</u>	<u>3,461,273</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 404,106	89,249	493,355
Total liabilities	<u>404,106</u>	<u>89,249</u>	<u>493,355</u>
Fund balances:			
Reserved:			
Capital facility construction	1,921,788	0	1,921,788
Unreserved	0	1,046,130	1,046,130
Total fund balances	<u>1,921,788</u>	<u>1,046,130</u>	<u>2,967,918</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,325,894</u>	<u>1,135,379</u>	<u>3,461,273</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2008

	Capital Projects Fund		
	GO	Local Option	Total
	Bond Construction	Sales and Services Tax	
REVENUES:			
Local sources			
Local tax	\$ 0	532,788	532,788
Other	231,756	52,497	284,253
Total revenues	231,756	585,285	817,041
EXPENDITURES:			
Current			
Support services:			
Administrative services	1,327	1,770	3,097
Other expenditures:			
Facilities acquisitions	3,864,822	966,221	4,831,043
Long-term debt:			
Costs of issuance	0	0	0
Total expenditures	3,866,149	967,991	4,834,140
Net change in fund balances	(3,634,393)	(382,706)	(4,017,099)
Fund balance beginning of year	5,556,181	1,428,836	6,985,017
Fund balance end of year	\$ 1,921,788	1,046,130	2,967,918

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008

Private Purpose Trust - Scholarship Fund					
	Armstrong	Boyer	Torneton	Wyland	Total
	Scholarship	Scholarship	Scholarship	Scholarship	
ASSETS					
Cash and pooled investments	\$ 5,560	8,096	642	3,602	17,900
TOTAL ASSETS	5,560	8,096	642	3,602	17,900
LIABILITIES	0	0	0	0	0
NET ASSETS:					
Reserved for scholarships	\$ 5,560	8,096	642	3,602	17,900

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 YEAR ENDED JUNE 30, 2008

	Private Purpose Trust - Scholarship Fund				
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Total
Additions:					
Local sources:					
Interest income	\$ 331	423	0	160	914
Total Additions	331	423	0	160	914
Deductions:					
Instruction:					
Regular instruction:					
Scholarships	343	0	0	200	543
Total deductions	343	0	0	200	543
Change in net assets	(12)	423	0	(40)	371
Net assets beginning of year	5,572	7,673	642	3,642	17,529
Net assets end of year	\$ 5,560	8,096	642	3,602	17,900

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

		Modified Accrual Basis				
		Years Ended June 30,				
		2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$	3,386,665	2,684,647	2,498,730	2,207,926	2,233,396
Tuition		535,398	530,597	496,622	489,707	399,863
Other		700,548	617,450	414,695	478,538	334,416
State sources		3,291,054	3,188,309	3,036,025	2,847,711	2,651,484
Federal sources		120,635	107,984	104,438	86,427	50,790
Total	\$	8,034,300	7,128,987	6,550,510	6,110,309	5,669,949
Expenditures:						
Current:						
Instruction:						
Regular instruction	\$	2,818,043	2,524,275	2,534,795	2,387,862	2,356,053
Special instruction		491,819	578,620	543,956	505,093	543,316
Other instruction		690,333	611,006	613,966	614,014	470,998
Support services:						
Student services		132,163	150,554	152,881	167,985	149,960
Instructional staff services		278,716	222,390	215,561	221,128	183,763
Administration services		857,999	798,067	702,332	665,318	554,918
Operation and maintenance of plant services		679,452	608,972	609,510	650,068	597,250
Transportation services		428,893	315,745	337,581	347,764	259,036
Non-instructional programs		0	0	0	1,207	4,044
Other expenditures:						
Facilities acquisitions		4,881,798	1,070,435	69,183	87,497	127,711
Long-term debt:						
Principal		90,000	0	0	0	0
Interest and fiscal charges		313,935	54,766	0	0	0
AEA flow-through		232,064	222,271	206,685	194,509	189,817
Total	\$	11,895,215	7,157,101	5,986,450	5,842,445	5,436,866

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
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Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Underwood Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Underwood Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 2, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Underwood Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Underwood Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Underwood Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Underwood Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Underwood Community School District's financial statements that is more than inconsequential will not be prevented or detected by Underwood Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Underwood Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

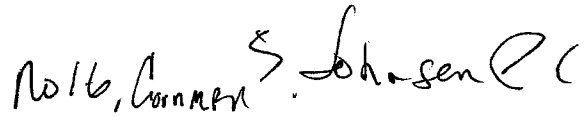
As part of obtaining reasonable assurance about whether Underwood Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Underwood Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Underwood Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Underwood Community School District and other parties to whom Underwood Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Underwood Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

January 2, 2009

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-08 Gate Admissions - The gate admissions were not always reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for all events that require admission. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We have changed our procedures and have reconciled to pre-numbered tickets for basketball, volleyball, and wrestling and are working on procedures for summer activities.

Conclusion - Response accepted.

- I-C-08 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - We have contacted all non-certified coaching personnel regarding the need to for them to keep track of their hours while they are on the job.

Conclusion - Response accepted.

- I-D-08 Receipting Procedures - We noted that sponsors of student organizations were collecting from individuals, fundraising events and other revenue fees. The sponsor or designated

individual collections, which subsequently are turned into the office for receipting, depositing and posting, do not appear to include documentation for later reconciliation uses. We noted that once collected at the office, these were handled in a comparable manner as receipts directly delivered to the office, where receipts are given and deposited. The copies of the receipts issued at the buildings are provided to the central office for posting and reconciling the bank statement. There does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposit.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts.

Response - We have notified all personnel that collect revenue from individuals, fundraising events, and other revenue fees that detailed documentation is needed and should be turned into the business office to be reconciled to the actual receipt.

Conclusion - Response accepted.

- I-E-08 Check Signatures - We noted during our audit, instances of only one signature on the District's checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all the checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - The checks being written from this account were written solely to "transfer" money between our capital project bond monies account to our schoolhouse account to cover capital project expenditures within the schoolhouse checking account. These expenditures were authorized through board approval.

Conclusion - Response acknowledged. Even though the checks were approved by the Board, Chapter 291.1 of the Code of Iowa requires that the Board President and Board Secretary sign all checks.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

II-A-08 Certified Budget - District expenditures for the year ended June 30, 2008 did not exceed the budgeted amount.

II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-08 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Marsha Slobodnick, Secretary Spouse owns TJ Wood	Bookcases	\$279

In accordance with Attorney's General opinion dated November 9, 1976, the transaction with the spouse of Marsha Slobodnick does not appear to be a conflict of interest.

II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - The bank has been contacted and the situation has been corrected.

Conclusion - Response accepted.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-08 Deficit Account Balances - Nine individual accounts within the Student Activity Fund had deficit balances totaling \$10,689.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - This is currently being reviewed and measures are being worked on to try and reduce deficit balances.

Conclusion - Response accepted.

II-K-08 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We have switched banking institutions and this has been changed so that we do receive fronts and backs of the cancelled checks.

Conclusion - Response accepted.